Testimony of Randy Stumbo
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For Meredith Corporation

POSTAL REGULATORY COMMISSION
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Biography

Randy Stumbo is the Sr. Director of Distribution and Postal Affairs for Meredith Corporation with 26 years of distribution and production related service. His responsibilities include providing direction and management of all postal affair activities along with serving as Meredith's primary postal liaison. He is a member of several organizations partnering with the Postal Service to improve the overall delivery system including Mailer Technical Advisory Committee (MTAC), Magazine Publishers of America Postal Committee, Periodicals Advisory Group (PAG), IDEAlliance and the Periodical Operations Advisory Committee (POAC). He earned a BA degree from the University of Northern Iowa and a MBA from Drake University.

Prepared Statement

I would like to thank the Postal Regulatory Commission for this opportunity to share Meredith Corporation's viewpoint regarding the development of a modern system of rate regulation for market dominant postal products. We feel that with the establishment of sound rate setting practices that adhere to the content and spirit of the Postal Accountability and Enhancement Act (PAEA), the United States Postal Service will be better positioned to manage the rapidly changing postal landscape and create an environment in which both the Postal Service and the mailing industry may thrive. Pursuant to your request, I am providing perspective on the rate setting process under consideration along with commentary regarding modern service standards also under development.

Before my comments, I would like to express our strong support for implementing the next rate increase under the new rate setting process. Doing so would avoid the cost of another omnibus rate case and allow the Postal Service and the industry to focus on matters that would move the mailing community forward. On this point, I appreciate the PRC's commitment to issuing final rules to implement the PAEA this fall.

Headquartered in Des Moines, Meredith is one of America's leading media and marketing companies. We operate businesses centered on magazine, book and custom publishing, television broadcasting, integrated and online marketing and interactive media. We are the third-largest magazine publisher in the United States with combined circulation of 30 million. Meredith publishes both large circulation titles – such as *Better*

Homes and Gardens, Ladies' Home Journal, Family Circle and *Parents* – along with a group of other titles of various circulations. Our 2006 annual postage expenditure was approximately $145 million. This total consisted of $100 million in Periodical Mail postage and an additional $45 million expenditure on other classes of mail to maintain and expand our circulation ($32 million for Standard Mail and $12 million for other classes).

Meredith Corporation is active in several organizations that partner with the Postal Service to move the mailing community forward. They include the Mailers' Technical Advisory Committee (MTAC), Magazine Publishers of America (MPA), Direct Marketing Association (DMA), Association for Postal Commerce (PostCom) and International Digital Enterprise Alliance (IDEAlliance).

It has been well publicized that the publishing industry faces major challenges. Periodical publications in particular face a rapidly changing business climate. Advertising dollar diversion to other channels along with rising subscriber acquisition, postage and production costs are converging to create an environment that presents unprecedented challenges to our business. Central to overcoming these dynamics is the need to control what has grown to be one of our largest expenditures – postage.

In our view, the development of a rate setting process that creates an effective framework to minimize internal Postal Service costs rather than ready access to additional revenue is paramount to the long-term viability of both the mailing industry and the Postal Service. Toward that end, Meredith Corporation offers the following prospective.

Regular and Predictable Rate Increases

For both the mailing industry and the Postal Service, manageable and predictable rate increases are essential to sound financial management. The rate setting process should include a consistent annual implementation date. In addition, the CPI adjustment mechanism should be calculated over a consistent time period. Use of a consistent implementation date and time period for calculating the CPI increase will help mailers develop reasonable projections of upcoming postage increases.

CPI Rate Cap

To realize effective cost controls as envisioned in the PAEA, it is imperative that effective incentives be in place to drive managerial decisions within the confines of consistent service standards. Providing too much flexibility in the CPI rate cap rules neither serves the spirit of the legislation nor promotes the creative problem-solving environment that is so critical to successfully navigating these challenging times. Without such incentives, management's motivation to control internal costs be compromised by the opportunity to manipulate overly flexible cap rules -- and the opportunity to create meaningful change will be lost.

Toward this end, it is imperative that the CPI rate cap be applied at the class level. This properly balances predictability with the need to allow the Postal Service to differentially adjust individual postal rates and workshare discounts to promote efficiency. Further, any banking of unused rate authority should be limited to the class level. Allowing "cross-class banking" would circumvent the clear intent of the PAEA to apply the rate cap at the class leveland seriously compromise the predictability of rate increases.

In addition, challenges to index-based increases during the notification period should be limited to alleged breaches of the CPI-based rate index. Issues of any other nature should be pursued through the Commission's annual review of rates or through a complaint proceeding.

Exigency

While adherence to the rate cap is critical to creating an environment within which both the Postal Service and mailing industry can thrive, the legislation also recognizes that there can be circumstances that demand rate setting flexibility to overcome extraordinary circumstances. Clearly, events that are of the magnitude of a 9/11 or the anthrax incidents fall in this category.

While it seems premature and imprudent to explicitly define in the abstract the events under which exigency may be exercised, it is necessary to define what it is not. Attributable cost shortfalls at the class or subclass level do not constitute exigent circumstances. Nor should the exigency clause be used to re-apportion rates in any way. An easy out provided by a liberal exigency provision would seriously damage the cost control incentive created by the rate cap.

Furthermore, increases under exigency should be applied on a system-wide basis, not at the class or subclass level. Circumstances that might invoke exigency are not class or subclass specific. Consequently, there is no justification to apportion exigency adjustments selectively.

Finally, to maintain cost control incentives, any rate adjustment that result from an exigency proceeding should not become fixed in the USPS cost base but should be reversed when the exigency circumstance abates.

45 Day Notification Period

As with other industries, the mailing industry has developed computerized systems to efficiently manage large amounts of data and exchange detailed information across mail owners, vendors and the Postal Service. These advances drive productivity and empower the industry to participate in mailing practices that drive overall costs out of the system and help to hold down the Postal Service's operating expenses. At the same time, these systems are complex and must accurately reflect postage rates and preparation rules.

On the surface, changes in postal rules and rates appear to be straight forward and not much more than updates to pricing tables in postage statement software. In today's environment of complicated mail preparation, it should be noted that changes in mail preparation rules, eligibility requirements or postage cost component relationships necessitate evaluation and reprogramming. These efforts are not confined to postage statement software. The presort software logic must be consistent with new requirements. The Mail.dat standard, a complex industry database used to convey detailed information regarding a specific mailing, must sufficiently reflect those changes. The software used by the list processing , mail production and mail services vendors must also be altered to reflect the changes and make the appropriate processing decisions.

While a 45 day notice period is appropriate for straight-forward rate increases, those of a more complicated nature will require an extended notice period. For rate changes involving re-alignment of cost element relationships, complex eligibility requirements or mail preparation rule changes, 90 days is a more appropriate notification period.

Programming and other preparations cannot be initiated until rule and eligibility changes are fully understood. Under the current rate case structure, proposed rate changes are announced and the details around proposed rule changes are sorted out after the fact. Under the abbreviated notification time horizon envisioned for the new rate setting process, that approach must change. Before the start of the notification period, the Postal Service and mailing community must come to a mutual understanding of rule changes in terms of meaning and application. Until those details are worked out through the Federal Register process, including a final Federal Register notice that considers industry questions and comments, the 90-day notice period should not begin.

Rate Adjustments - Cost Shifting/Reduced Service

To foster a healthy mailing industry, both the Postal Service and private industry must endeavor to drive overall costs out of the delivery system. Simply shifting costs from the Postal Service to private industry without adequate rate incentives to compensate mailers for additional cost incurred fails to promote that environment, and could also allow the Postal Service to circumvent the CPI index. The new rate setting process must contain methodology to make those adjustments to rates.

In addition, postal rates are based on a certain level of service. Should the Postal Service diminish that level through the imposition of preparation rules changes or some other means, there should be a mechanism to adjust those rates to reflect the change.

Service Standards

Reliable and consistent service is important to periodical mailers on several fronts. Obviously, this is important to our billing efforts. In terms of service to our subscribers, the cycle time required to fulfill the first issue of a new subscription impacts pay-up. Closely controlling the in-home delivery of our subscription promotions allows for tight management of our circulation rate. All are important to our business.

The current standards are reasonable and would be acceptable as the benchmark under the new law. Performance reporting on those standards must be timely, accurate and meaningful. Those statistics should be both of a regional nature and summarized on a system-wide level. Major markets should be defined as individual regions. The statistics should be developed on an ongoing basis and made available to the public monthly at the regional level. At this point, the Postal Service does not have a reliable mechanism available to accurately capture delivery performance for periodical mail. While this will change with the implementation of the Intelligent bar code in the next few years, there must be a temporary tracking system developed until that time. An industry association called Red Tag already has a periodical delivery tracking system in place that utilizes seeded names and data collectors across the country. Rather than developing a temporary system, the Postal Service should adopt the Red Tag system as the temporary solution.

Without a mechanism to drive behavior, delivery standards will be treated as little more than general guidance. To make service standards meaningful, there must be incentives in place to reward achieving or exceeding the benchmarks and penalties for poor performance. To foster cooperation between postal management and employees, incentives of some form must extend beyond management.

Again, I would like to thank the Commission for this opportunity. The thoughtful development of the new rate setting process and establishment of a meaningful service standards system are key to realizing the vision behind the Postal Accountability and Enhancement Act. If we get those wrong, precious little has been gained by this legislation.

In the interest of promptly realizing the benefits associated with both the new rate setting process and service standards system, I would encourage the Commission to expeditiously complete its work on these aspects of the legislation.